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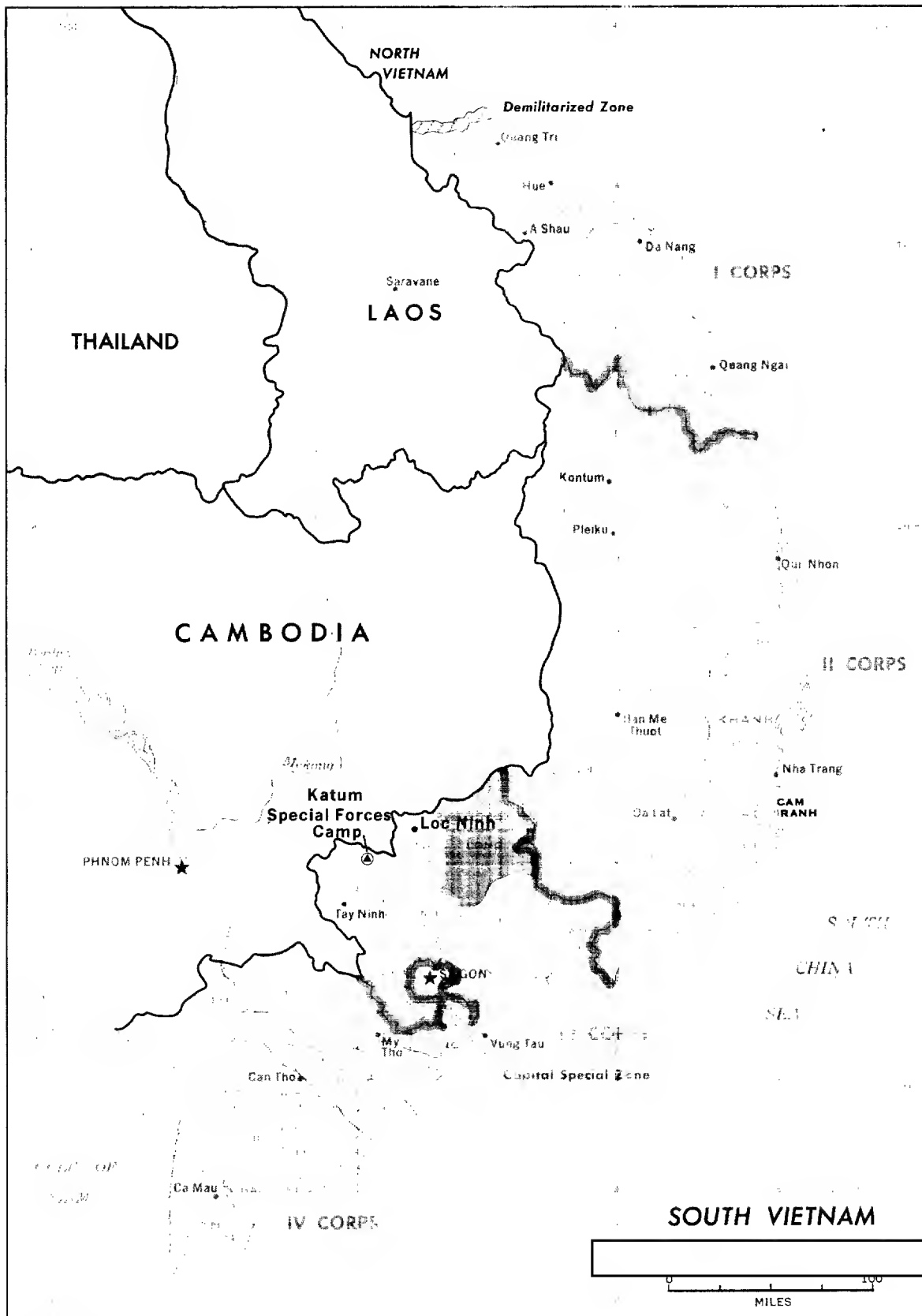
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【Vietnam: Heavy fighting erupted on 3-4 December in northern III Corps.

An estimated battalion of North Vietnamese on 3 December hit a company of the US 1st Air Cavalry Division shortly after it had been airlifted into an area some 13 miles from Loc Ninh in Phuoc Long Province. The battle lasted for more than four hours with the enemy breaking contact shortly after the arrival of US reinforcements. US casualties were placed at 25 killed and 65 wounded. The enemy force is known to have lost only one man.

The Communists also shelled a US position near the Katum Special Forces Camp on 4 December. Some 100 rounds of 82-mm. mortar fire along with heavy small arms fire resulted in 18 US wounded. Enemy losses were 37 killed.

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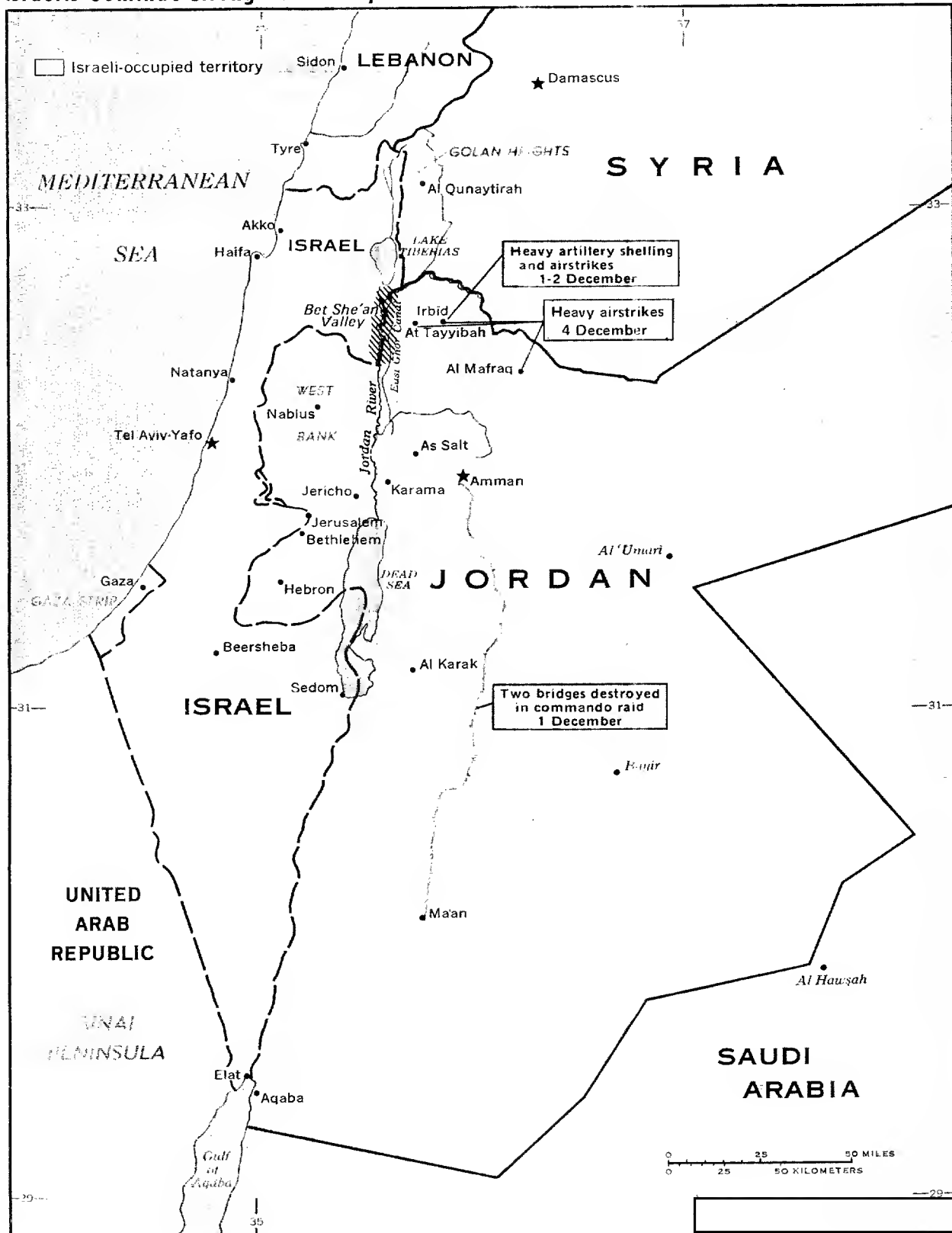
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Israelis Continue Strong Retaliatory Strikes



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Israel-Jordan: Israel's most recent reprisal tactics are likely to get even tougher if the terrorists in Jordan continue their present pace of activity.

Early yesterday Israeli aircraft attacked several areas in northern Jordan, in action directed primarily against Iraqi troops that the Israelis claim have shelled their settlements. The heaviest damage was apparently inflicted on Al Mafraq, an Iraqi base but also the site of the Jordanian Army's largest airfield. The Jordanian Air Force was at Amman at the time and did not scramble.

Although Jordan claims to have shot down three Israeli planes with antiaircraft fire, the Israelis concede only one plane lost, a French-built Super Mystere. No final casualty figures have been received but the Jordanians probably lost a number of people in the populated areas that were hit.

King Husayn's obvious inability to oppose the Israeli attacks only encourages further terrorist activity, thus continuing the present vicious cycle.

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Venezuela: The armed forces have tightened security measures in Caracas. General uneasiness there and in other major cities has been aroused by the delay in declaring a winner in the tight presidential election.

Christian Democrat Rafael Caldera's slim margin over Gonzalo Barrios, the presidential candidate of the governing Democratic Action Party, is beginning to shrink slightly after holding steady for the past few days. Returns from Venezuela's rural areas--a traditional source of government support--probably account for the attrition of Caldera's strength.

Both candidates continue to claim victory. There reportedly have been minor clashes between party supporters, but press accounts of widespread shooting and firebombing in Caracas have been exaggerated. The military have reaffirmed their intention to respect and guarantee the transfer of power to the legal winner, and several tanks have been stationed around the presidential palace in a previously planned precautionary measure.

25X1 [redacted] government officials have warned Christian Democrat leaders not to permit any activity by party supporters that would upset the electoral processes. The Christian Democrats have not questioned the honesty of the electoral commission. Nevertheless, some party leaders are calling for an investigation in the counting of the votes, and Caldera has warned against any attempt to falsify the returns. 25X1 [redacted]

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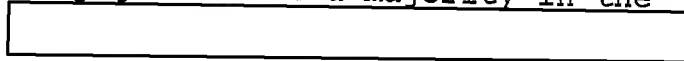
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Ecuador: President Velasco's reorganization of his cabinet on 3 December will do little to improve the difficult political situation building up in Ecuador.

The important Ministry of Government went to the former education minister, leftist Hugo Larrea. Larrea may seek an accommodation with students and other extremist elements, although Velasco is under pressure from powerful interest groups to curb their growing lawlessness. Velasco wanted to name an extreme leftist to the Education Ministry, but was forestalled by pressure from within his own party and probably from the military.

Velasco reluctantly dropped at least one minister annoying to powerful business interests but retained for the present his controversial leftist finance minister. Two of the three new ministers are ambitious and capable politicians without party affiliation at present.

The absence of any Liberal representation in this cabinet indicates difficulties in the working arrangement with the Liberal Party that had given Velasco's minority government a majority in the legislature.



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Chile: Students at three universities have clashed with police over various issues during the past ten days.

The most recent incident occurred on 2 December when students of the State Technical University (UTE) fought with police after a march to downtown Santiago was dispersed. The students have been on strike since 19 November, protesting the government's withholding of financial support to the university.

The controversy at UTE is primarily political. The Communist rector of the university is placing Communists in important positions in the university administration and attempting to consolidate Communist control over the student federation. The Ministry of Education in an effort to hinder the Communists' plans is withholding funds that the rector claims are due.

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USSR: This year's near-record grain crop will permit the USSR to meet domestic demand, fulfill export commitments and supplement grain reserves.

The total usable grain crop this year--considerably greater than predicted earlier--is estimated to be 130-135 million metric tons, just short of the record crop of 140 million tons harvested in 1966. The harvest of bread grains (wheat and rye)--estimated at 80-85 million tons--was also the second largest on record. Grain supplies will be ample to meet domestic requirements for high quality bread in 1969.

The excellent grain harvest also will enable the USSR to be a net exporter of grain for the second year in a row. Moscow is expected to provide at least 5.5 million tons of grain during the 1968-69 trade year to East Europe, Cuba, North Vietnam, North Korea, Egypt, and Algeria.

These countries probably will press the USSR to increase its grain exports inasmuch as the total demand of these countries for grain is projected at about 11 million tons. The USSR, however, may prefer to increase its earnings of foreign exchange through greater sales of grain in hard currency areas.

Four million tons of grain remain to be purchased by the USSR from Canada under a three-year agreement concluded in 1966. This commitment probably will be honored, although the terms may be renegotiated by extending the contract beyond 1969.

If exports are held to the level stipulated in current agreements, the USSR will be able to make significant additions to its reserve stocks of grain, raising them to an estimated 20-25 million tons by mid-1969. Stocks of this size would enable the Soviets to overcome a moderately poor crop year without importing large amounts of grain.

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USSR - European Communities: Moscow has initiated its first formal contact with the Commission of the European Communities (EC).

A first secretary of the Soviet Embassy in Brussels paid a call early last month on the commission official responsible for EC trade with Eastern Europe. The visiting Soviet said that Moscow considered the communities to be of major significance for the political development of Europe, and that this role far outweighed the economic one.

This diplomatic gesture and the comments of the embassy officer are in marked contrast with Moscow's past line which has been critical of the communities and has studiously avoided any de facto recognition. If these represent the first signs of a fundamental shift in Moscow's attitude toward the communities, that shift probably will come slowly, however.

At present, Moscow is intent on tightening controls in Eastern Europe, and would not wish to risk actions which would jeopardize this policy. Although Moscow might be seeking some leverage with the EC on East-West trade matters, it will be wary lest its behavior encourage those East European nations which already have sought closer economic ties with the EC. [REDACTED]

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United Kingdom: The outlook for significant improvement in the UK's balance-of-payments is far from encouraging a year after the devaluation of the pound.

The devaluation of November 1967 has been moderately successful this year in stimulating British exports, which have risen more or less in line with original estimates. Imports, however, have not fallen because London failed to adopt policies to cut domestic consumers' demand effectively. As a result the deficit this year in the balance-of-payments will be about \$1.4 billion, up considerably from 1967.

A continued rise in exports coupled with a slowdown in imports as austerity measures finally take effect may lead to a moderate surplus in the UK's international payments next year. Such contingencies as renewed inflation if the government is unable to resist demands for higher wages and prices and a fall in world demand for British exports, however, could upset this forecast. Moreover, a devaluation of the franc probably would result in heightened pressure on the pound.

A surplus next year in the UK's balance-of-payments would not mean a respite from international payments pressures on Britain. Future surpluses--perhaps until the mid-1970s--have been mortgaged because of the enormous debt accumulated in the losing battle to defend the pound at its parity before the devaluation of November 1967.

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Burma: General Ne Win may be taking serious steps toward the eventual inclusion of more civilians in the government.

The general has in characteristic fashion imposed a secrecy lid on his current talks with civilian politicians. The four days of discussions to date, however, have reportedly been harmonious, and the politicians are said to be organizing to take advantage of a possible political breakthrough.

Any political changes will probably be slow in developing. Although Ne Win now may be disposed to carry through on earlier intimations of greater civilian participation in the government, he clearly does not intend to be hurried. He has told the civilian conferees to be prepared for discussions lasting as long as six months.

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UN - South Africa: The Economic and Financial Committee of the General Assembly has voted to expel South Africa from the United Nations Commission on Trade and Development because of its policies of apartheid.

Despite strong opposition from the US and from the Secretary General's legal adviser, the resolution for expulsion passed by a vote of 49 in favor and 22 opposed, with 23 abstentions and 31 absences. The plenary session of the Assembly will vote in a few days on whether or not to adopt the Financial Committee's action. Considering the unusually high number of absences and abstentions, the plenary might take the unusual step of refusing to ratify the action of one of its committees.

This is the first time that an attempt has been made to oust a nation from a subsidiary organ of the General Assembly in which all the UN members are represented. The UN's legal counsel holds that such action would violate the principle of sovereign equality under the UN Charter and would create a dangerous precedent. It could well lead to similar efforts in other UN agencies and organizations against South Africa, or any member in disfavor with particular groups.

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West Germany - Berlin: Bonn leaders seem on the verge of picking West Berlin as the site for the Federal Assembly which, early next year, will elect a successor to retiring President Luebke, even though the meeting might touch off Communist harassment. Major party leaders are to meet today with Bundestag president Gerstenmaier, who will make the final decision. There is strong support for Berlin in all the parties, and Chancellor Kiesinger is said to feel that his opposition to this choice is futile. [REDACTED]

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Czechoslovakia: A leading Czechoslovak economist has challenged the leadership to define the limits within which the country's economic reform can be pursued. He has called upon the government to establish guidelines before the Central Committee meets later this month to discuss economic reforms. Liberal economists, such as the author of this appeal, claim that revitalization of the economy is dependent on modernization of production facilities, greater emphasis on consumer goods production, decentralization of decision-making, and increased trade ties with the West. [REDACTED]

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Cyprus: The second round of the talks between the Greek and Turkish Cypriot communities is scheduled to end later this month, but progress continues to be very slow. The governments of Turkey and particularly Greece are prodding the leaders of their respective communities on the necessity for compromise to regain the momentum of the earlier stages of the discussions. The degree of local self-government that might be allowed the Turkish Cypriot community remains a key issue. Another round of the talks is scheduled to open in mid-January. [REDACTED]

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Dominican Republic: Former president Juan Bosch, operating in his usual highly personal style, apparently is attempting to lead his Dominican Revolutionary Party in a more radical direction. Bosch has reportedly urged that the party's leadership be turned over to its Communist influenced youth wing. He also recently threatened to resign as an active member of the PRD, as a means of persuading the party to accept his views. One party leader is said to view the resignation as a publicity stunt designed to force the so-called "conservatives" out of the party. Bosch himself has indicated that he wants the party to become "the National Liberation Front." [REDACTED]

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